

Message Text

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ACTION AF-10

INFO OCT-01 EUR-12 EA-10 NEA-10 ISO-00 AID-05 CIAE-00
COME-00 EB-08 FRB-03 INR-10 NSAE-00 USIA-06
TRSE-00 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01
NSC-05 SS-15 STR-07 CEA-01 /116 W
-----083737 120758Z /13

R 101450Z MAR 78
FM AMEMBASSY LAGOS
TO SECSTATE WASHDC 7062
INFO AMEMBASSY LONDON
AMEMBASSY JAKARTA
AMEMBASSY NEW DELHI
AMCONSUL IBADAN
AMCONSUL KADUNA

C O N F I D E N T I A L SECTION 1 OF 2 LAGOS 3058

E.O. 11652: GDS
TAGS: EINV, EQIP, PFOR, NI
SUBJECT: INDIGENIZATION: IBM PROBLEM COMING TO HEAD

REF: (A) LAGOS 1818, (B) LAGOS 1052, (C) 76 LAGOS 14201

SUMMARY: IBM HAS BEEN DENIED AN EXEMPTION FROM ATE
INDIGENIZATION UNQTE AND ORDERED TO SELL 40 PER CENT OF THE EQUITY
IN IBM NIGERIA TO NIGERIANS BY YEAR-END, COMPANY PROBABLY WILL
REFUSE AND ATTEMPT TO SUBSTITUTE A SERVICE AGENCY ARRANGEMENT
BUT IS BEGINNING TO FEAR A CONFRONTATION SUCH AS OCCURRED IN
INDIA AND INDONESIA. IBM-FMG COMMUNICATIONS ARE POOR AND MAY
WARRANT USG ASSISTANCE TO AVOID UNDESIRABLE POLITICAL AND
COMMERCIAL CONSEQUENCES. END SUMMARY.

1. IBM HEADQUARTERS IN NEW YORK WAS TO HOLD A TOP-LEVEL
MEETING YESTERDAY OR TODAY TO DECIDE HOW TO REACT TO A RATHER
BLUNT NIGERIAN GOVERNMENT (FMG) ORDER TO QTE INDIGENIZE UNQTE
BY YEAR-END BY SELLING AT LEAST 40 PER CENT EQUITY IN IBM
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NIGERIA LTD. TO NIGERIANS.

2. THE ORDER CAME IN A LETTER FROM THE NIGERIAN ENTERPRISES
PROMOTION BOARD (NEPD), WHICH IS CHARGED WITH IMPLEMENTING THE
JULY 1977 NIGERIAN ENTERPRISES PROMOTION DECREE (INDIGENIZATION
DECREE) REQUIRING ALL ENTERPRISES TO BE 100, 60 OR 40 PER CENT
NIGERIAN BY DECEMBER 31. MOST WESTERN FIRMS FALL IN THE 60 OR

40 PERCENT CATEGORIES AND TO DATE FEW HAVE INDIGENIZED VOLUNTARILY. THE LATTER WAS THE FIRST OFFICIAL NOTICE THAT IBM HAS BEEN CLASSIFIED UNDER SCHEDULE 3, THE 40 PERCENT CATEGORY, BUT OTHERWISE WAS UNHELPFUL TO IBM, WHOSE STADNING POLICY PROHIBITS LOCAL EQUITY PARTICIPATION.

3. ACCORDING TO AN IBM NIGERIA OFFICIAL, THE LETTER REPLIED TO IBM'S LONG-STANDING APPLICATION FOR EXEMPTION BUT IGNORED A LATER LETTER OFFERING TO NEGOTIATE VARIOUS FORMS OF INDIGENIZED SERVICE AGENCY ARRANGEMENTS WHICH WOULD LEAVE IBM PERSONNEL HERE ONLY AS CONSULTANTS. MOREOVER, THE OFFICIAL FEARS THAT THE FMG MAY BE CONSIDERING SETTING UP ITS OWN COMPUTER SERVICING CAPABILITY TO REPLACE IBM, AS INDIA REPORTEDLY DID. NO KNOWLEDGEABLE OBSERVER THINKS THE FMG COULD SERVICE THE COUNTRY'S COMPUTERS WITHOUT OUTSIDE HELP BUT THE IBM OFFICIAL THINKS THE NIGERIANS ARE CONSULTING THE INDIANS. HE ALSO SAYS FMG OFFICIALS CLAIM THAT IBM REFUSES TO NEGOTIATE.

4. THE OFFICIAL THINKS THAT IBM HEADQUARTERS WILL NEXT ATTEMPT THE SERVICE AGENCY OPTION BUT ASSERTS THAT THIS MUST BE SETTLED ONE WAY OR THE OTHER BY MID-YEAR TO AVOID THE INDONESIAN EXPERIENCE OF BEING ORDERED TO CLOSE WITHIN 14 DAYS AT THE INDIGENIZATION DEADLINE. HE EXPECTS TO HAVE INSTRUCTIONS NO LATER THAN MONDAY.

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C O N F I D E N T I A L SECTION 2 OF 2 LAGOS 3058

5. BEGIN COMMENT: THE SITUATION IS AN UNUSUAL EXAMPLE OF THE CONFLICT BETWEEN HIGH TECHNOLOGY TRANSFER AND NATIONALISM. UNLIKE OTHER PROMINENT INDUSTRIES SUCH AS OIL, IT DOES NOT INVOLVE THE COUNTRY'S NATURAL RESOURCES. AMONG OTHER RISKS, IT COULD AT THE EXTREME RESULT IN NIGERIAN SEIZURE OF EX-PROPRIATION OF IBM'S MAIN ASSETS, SINCE NEARLY ALL ITS COMPUTERS IN NIGERIA ARE LEASED. MOST IMPORTANT, IBM VIRTUALLY IS THE COUNTRY'S COMPUTER INDUSTRY; ITS 68 COMPUTERS IN NIGERIA ARE THOUGHT TO BE THREE-FOURTHS OF THE COUNTRY'S COMPUTERS AND ARE USED BY MAJOR GOVERNMENT AGENCIES, UNIVERSITIES, OIL COMPANIES AND OTHER LARGE FIRMS. IBM PROBABLY WOULD NOT GO TO THE EXTREME OF ATTEMPTING TO REMOVE ITS COMPUTERS, NOR WOULD IT BE ALLOWED TO, BUT THE ABSENCE OF EFFECTIVE SERVICING ARRANGEMENTS WOULD HAVE NEARLY THE SAME EFFECT ON THE ECONOMIC SINCE COMPUTERS HERE REQUIRE CONSTANT MAINTENANCE BECAUSE OF UNRELIABLE ELECTRICITY SUPPLIES AND GENERALLY POOR CARE.

6. ALL RELEVANT ASPECTS OF THE SITUATION COULD NOT BE ASSESSED IN ONE CONVERSATION BUT IT APPEARS THAT IBM HAS NOT
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YET EXHAUSTED ITS INDIGENIZATION APPEAL RIGHTS NOR IS IT IN TOUCH WITH ALL NIGERIANS CONCERNED. AT LEAST ONE OF THESE COULD BE HELPFUL. HE IS ALAJI S. O. ADEYINKA, FEDERAL STATISTICS OFFICE CHIEF WHO HEADS THE GOVERNMENT EXECUTIVE COMMITTEE FORMED JAN. 18 TO OVERSEE NIGERIA'S COMPUTERS. THE IBM OFFICIAL HAS A RUMOR THAT ADEYINKA SUGGESTED TO FMG THAT IBM BE GIVEN AN ADDITIONAL YEAR TO INDIGENIZE OR COMPROMISE. IT IS ALSO BELIEVED THAT FOUR IBM CUSTOMERS ARE ON THE COMMITTEE, BUT THE COMMITTEE'S COMPOSITION IS NOT PUBLIC. UNFORTUNATELY, INDIGENIZATION POLICY DOES NOT SEEM TO BE CONTROLLED BY THE COMMITTEE'S EXPERTS BUT BY THE FMG'S CABINET OFFICE, WHICH HAS NORMALLY TENDED TO BE AGAINST QTE FOREIGN INTERESTS AND FOREIGN PRESSURES UNQTE. CABINET IS UNLIKELY TO HAVE ANY SYMPATHY FOR A GIANT, MULTINATIONAL AMERICAN FIRM REGARDLESS OF ADVERSE CONSEQUENCES FOR THE ECONOMY.

7. EMBOFF SAID THE EMBASSY IS AVAILABLE TO ASSIST IF IBM SEES ANY MERIT AND NOTED THAT THE FORTHCOMING VISIT OF PRESIDENT CARTER COULD PROVIDE GOOD OPPORTUNITIES FOR QUIET HIGH-LEVEL DIPLOMACY IF NEEDED. END COMMENT.

8. ACTION REQUEST: IT WOULD BE HELPFUL TO KNOW WHAT ACTUALLY HAPPENED TO IBM IN INDIA AND INDONESIA AND WHETHER ITS CONFRONTATIONS THERE COULD HAVE BEEN AVOIDED.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, FOREIGN INVESTMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 10 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LAGOS03058
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780110-0846
Format: TEL
From: LAGOS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780383/aaaacsjf.tel
Line Count: 167
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: dcaaacc9-c288-dd11-92da-001cc4696bcc
Office: ACTION AF
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 LAGOS 1818, 78 LAGOS 1052, 76 LAGOS 14201
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 27 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3375427
Secure: OPEN
Status: NATIVE
Subject: INDIGENIZATION: IBM PROBLEM COMING TO HEAD
TAGS: EINV, EQIP, PEPR, NI, US, IBM
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/dcaaacc9-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014